

1 Q Now, it reflects on Exhibit 82 that a copy of it
2 went to you. Do you see that?

3 A Yes, I do. It's probably the copy that was
4 attached to this letter in Exhibit 81.

5 Q Well, what is going on with Exhibit 82?

6 A I don't know. I don't know. I didn't know then
7 and I don't know why Rick thought that he should send the
8 bill, this statement to John.

9 Q And the statement was paid, was it not?

10 A It was.

11 Q Do you know who paid it?

12 A WRBR, Hicks Broadcasting did. Again, Pathfinder
13 paid it under a check and charged Hicks Broadcasting for the
14 bill, just like everything, but Hicks paid it.

15 JUDGE CHACHKIN: Did you participate in any
16 discussion pursuant to the amount of the bill?

17 THE WITNESS: No.

18 JUDGE CHACHKIN: Do you know if Mr. Dille did?

19 THE WITNESS: I believe he had a conversation with
20 Dave and Rick Brown. I heard that he had a conversation,
21 and I don't know anything else about it.

22 MR. SHOOK: Your Honor, the Bureau offers Exhibits
23 81 and 81.

24 JUDGE CHACHKIN: Any objection.

25 MR. JOHNSON: No, Your Honor.

1 JUDGE CHACHKIN: The exhibits are received.

2 (The documents referred to,
3 having been previously marked
4 for identification as MMB
5 Exhibit Nos. 81 and 82, were
6 received into evidence.)

7 JUDGE CHACHKIN: We'll take a 10 minute break.

8 (Whereupon, a recess was taken.)

9 JUDGE CHACHKIN: Back on the record.

10 BY MR. SHOOK:

11 Q Mr. Watson, could you please turn to Exhibit 83?

12 You will see that the cc there is your name.

13 Do you have a recollection of receiving a copy of
14 this letter?

15 A I really don't recall this at all, but there is no
16 reason that -- it's -- just let me see what it is.

17 Oh, yeah, okay. It's the kind of thing that I
18 would received, so I'm sure that I did.

19 Q Your involvement the W-9 IRS form would have been
20 in relation to the accounting agreement that you had with
21 Hicks?

22 A Yes.

23 Let me explain this accounting service agreement,
24 please. I want you to understand it was meant to be a
25 rather broad agreement, even though it's fairly short. I

1 wrote that and it was meant to be fairly broad; not just the
2 accounting, but handling the business records, and we
3 prepared financial statements for Hicks. We were to make
4 the government reports for them. Anything to do with the
5 business records and the financial records and government
6 report, that was what that was meant to be.

7 So when I get this request, and I say this is the
8 kind of thing I would have gotten, what it tells me is that
9 they were for some reason wanting an employer identification
10 number for Hicks Broadcasting. At that time I don't know
11 that -- I don't know that -- it should have been issued by
12 that time, but -- so, yes, I would have probably got this.

13 JUDGE CHACHKIN: Is there a copy of the accounting
14 agreement in the record?

15 MR. SHOOK: Excuse me, sir?

16 JUDGE CHACHKIN: Is there a copy of the accounting
17 agreement in the record?

18 MR. SHOOK: Yes.

19 JUDGE CHACHKIN: We'll get to it, I assume, some
20 time.

21 MR. SHOOK: Well, actually, we have already talked
22 about it.

23 JUDGE CHACHKIN: What's the exhibit?

24 MR. SHOOK: I believe it's in Mass Media Bureau
25 Exhibit 1. It's page 43.

1 Excuse me, that's the -- it's page 81.

2 JUDGE CHACHKIN: It's in which one again?

3 MR. SHOOK: It's in the first volume.

4 JUDGE CHACHKIN: Okay.

5 MR. SHOOK: And it's Exhibit 1, page 83.

6 JUDGE CHACHKIN: Okay.

7 MR. SHOOK: Excuse me. Page 81.

8 JUDGE CHACHKIN: All right, thank you.

9 MR. SHOOK: Sooner or later I'm going to get this
10 right.

11 BY MR. SHOOK:

12 Q Is there something that you had wanted to add or?

13 A No, other than -- you know, I'm no attorney, and,
14 of course, I wrote this agreement and it was meant to be
15 all-encompassing with respect to the business records,
16 keeping of those files and so on, and this really doesn't --
17 I think that this covers that.

18 So in answer, back to the other exhibits, it's the
19 kind of thing I would get.

20 Q Considering that the closing took place, it looks
21 like a month before, do you have any explanation as to why
22 it was that the W-9 information was being obtained at the
23 time reflected in the letter?

24 A No, I have no idea. I have absolutely no
25 recollection of this event at all. Not to say that I didn't

1 get a copy of it.

2 Q Well, now, looking at the second sentence of the
3 letter, it mentions that you were going to be doing
4 something.

5 A Yes.

6 Q And is it your recollection that you did that?

7 A Either -- either I did or Sam Thompson did on
8 behalf of MTV, and I don't know. When he set up the entity,
9 sometimes he sends out -- it's called an S-3 or an S-1 form
10 or something, it gets the employer identification number
11 from the government, and sometimes he does it. If he
12 didn't, I would have done it.

13 JUDGE CHACHKIN: I assume this accounting
14 agreement is exclusively with Hicks, it's with no one else,
15 no other competitive stations; is that correct?

16 THE WITNESS: Yes, Your Honor.

17 JUDGE CHACHKIN: You never had such an agreement
18 with Booth?

19 THE WITNESS: No, Your Honor.

20 MR. SHOOK: Your Honor, the Bureau offers Exhibit
21 83.

22 JUDGE CHACHKIN: Any objections.

23 MR. JOHNSON: None, Your Honor.

24 MR. WERNER: No, Your Honor.

25 JUDGE CHACHKIN: Exhibit 83 is received.

1 (The document referred to,
2 having been previously marked
3 for identification as MMB
4 Exhibit No. 83 was received
5 into evidence.)

6 BY MR. SHOOK:

7 Q Please turn to Exhibit 84. Did you receive the
8 letter?

9 A Yes.

10 Q What did you do as a result of receiving a copy of
11 the letter?

12 A Well, I -- I've got to file the D. I mean, I
13 filed the D in a file with the other business records for
14 Hicks Broadcasting.

15 MR. SHOOK: Your Honor, the Bureau offered Exhibit
16 84.

17 JUDGE CHACHKIN: Any objection?

18 MR. WERNER: None from Hicks, Your Honor.

19 JUDGE CHACHKIN: Exhibit 84 is received.

20 (The document referred to,
21 having been previously marked
22 for identification as MMB
23 Exhibit No. 84, was received
24 into evidence.)

25 JUDGE CHACHKIN: By the way, just to be fair,

1 you've been in the industry now for 20 years. You've been
2 involved with broadcasting.

3 Do you know of any similar accounting agreement
4 between any stations that you're aware of elsewhere?

5 THE WITNESS: I am not aware of any, but I can say
6 that joint sales agreements were very new at this time we
7 entered into Booth, and then that continued and actually
8 became more of a joint operating agreement with Hicks,
9 particularly since the co-location took place.

10 I'm not aware of any others, but that doesn't mean
11 to say there isn't.

12 JUDGE CHACHKIN: Well, I understand that even 20
13 years in the industry --

14 THE WITNESS: Well, but -- but these kind of --
15 all I am really trying to point out is that these kind of
16 arrangements that started with Booth weren't around for the
17 last 20 years. They just -- in fact, about the time we
18 started with Booth is about the time they started in the
19 industry at all. It was very, very -- within a few months
20 there.

21 JUDGE CHACHKIN: Well, we've already gone over the
22 similarities between the Booth arrangement, when Booth was
23 the party, and when Hicks was the other party. I just
24 wanted to find out if you -- when you modeled this -- when
25 you prepared this agreement, what did you use? Did you use

1 anything as a model or was this something of first
2 impression?

3 THE WITNESS: No, I did not use it as a model
4 other than Dave asked if we could do the accounting for him.
5 We already had the infrastructure systems and so on. I used
6 no model to write that agreement by.

7 JUDGE CHACHKIN: Well, I always understood
8 accounting doesn't mean that you prepare -- are you an
9 accountant, sir?

10 THE WITNESS: Yes.

11 JUDGE CHACHKIN: And what does an accountant
12 normally do for a customer? I mean, what is the type of
13 work of an accountant? What did --

14 THE WITNESS: Well, it differs. I mean, I know
15 some CPA firms that do full -- they keep all the records of
16 the company. There are some small, and this is a small --
17 consider this a small company, one radio station. And CPA
18 firms will take -- prepare their financial statements, write
19 their checks, they will do everything that we're doing for
20 them. And this is just like -- I mean, he could have gone
21 to a CPA firm, and they would have done exactly the same
22 thing, including keeping all the records, keeping the deeds,
23 everything.

24 JUDGE CHACHKIN: Could you tell me why he didn't
25 go to an independent CPA company rather than use your

1 services?

2 THE WITNESS: Well, probably cause I'm sure that
3 we were more economical, and we already -- and we already
4 had many joint employees, and many joint bills that were
5 already -- that were both LTA and WRBR bills. It seemed to
6 make sense when he asked for the service.

7 I mean, it seemed -- he would have -- we could
8 have said no, but he would have been, I think, foolish not
9 to ask because it was -- it was kind of a natural.

10 JUDGE CHACHKIN: Go ahead, Mr. Shook.

11 BY MR. SHOOK:

12 Q Mr. Watson, I'm going to ask you to look at some
13 of the financial documents now. Specifically, I'm going to
14 start with Mass Media Bureau Exhibit 112.

15 JUDGE CHACHKIN: What book are we in now?

16 MR. SHOOK: It's Volume 4, Your Honor.

17 BY MR. SHOOK:

18 Q All right, just to give you an idea of how I've
19 got this arranged, Mass Media Bureau Exhibit 112 consists of
20 nine different financial statements covering the months
21 April through December of 1994.

22 A Okay.

23 Q Did your office have any role in the preparation
24 of the nine financial statements of Hicks Broadcasting of
25 Indiana for these months April through December of 1994?

1 A Yes, they were prepared by my -- yes, they were
2 prepared.

3 Q Now, considering that the statement that we're
4 looking at here cover the period of one month, first of all,
5 could you give us an idea of approximately when such a
6 statement would have been prepared?

7 A Well, it would have probably been issued no later
8 than probably the 16th of May, 15th or 16th of May, at that
9 time. We're getting them out a little faster now.

10 Q But during the period of 1994, it would have been
11 approximately two weeks after the end of the month?

12 A Yes.

13 Q Now, what did you do or where did you send the
14 financial statements once each was completed?

15 A Well, let me think who gets a -- Hicks, Dave Hicks
16 gets a copy of these financial statements, I do, both of my
17 controllers do, John Dille does, and I think that's it, and
18 I do.

19 Q And who would receive a copy of financial -- is
20 there a similar financial statement prepared station by
21 station for each of the Pathfinder stations?

22 A Yes, there is.

23 Q So, for example, there would be a corresponding
24 financial statement for WLTA?

25 A Yes, they come off the same accounting system.

1 Hicks is a separate company on that accounting system.

2 Q Where would the WLTA reports go?

3 A They would go to John Dille, Banks, me, both
4 controllers, and to other -- and to at least one or two
5 other shareholders.

6 Q Now, I notice that on the first page of Mass Media
7 Bureau Exhibit 112 the financial statement reflects that it
8 was unaudited.

9 A Yes.

10 Q Were the financial statements for WLTA also
11 unaudited?

12 A Well, let me explain what this means.

13 Pathfinder Communications Corporation does have an
14 audit done every year. Hicks Broadcasting does not have an
15 audit done. During each month of the year -- I don't know,
16 this has been going on forever -- that the word "unaudited"
17 goes on the statement.

18 At end of the year we come out with a December
19 statement that also says "unaudited." And then after the
20 audit, we come out with another one that says "audited."
21 This is just a holdover from -- in other words, each, each
22 financial statement is prepared, the person who prepares
23 this writes -- types those words on it "unaudited." But
24 Hicks was unaudited and it has never been audited by a CPA.

25 Q And it's the normal business practice for

Heritage Reporting Corporation
(202) 628-4888

1 Pathfinder to have its statements audited at some point as
2 you've described?

3 A Yes, it's normal. I mean, there has been a need
4 for it for many years for them to be audited because of bank
5 debt.

6 Q And what is the accounting -- what is the
7 accounting firm that does that audit?

8 A The Gladary Firm.

9 Q Does that accounting firm perform any services for
10 Hicks?

11 A Yes, they prepare the tax returns.

12 Q Do they do anything else?

13 A Not other than they help occasionally with
14 shareholders' distributions. They will complete the amount
15 of shareholder distributions if they are necessary to pay
16 taxes of a member.

17 Q Now, I want to direct your attention to the third
18 page, and first I want to focus your attention on the line
19 reading "net operating profit." It reads "net oper.
20 profit."

21 I take it that means net operating profit?

22 A Yes.

23 Q And that's located at the bottom of the page?

24 A Yes.

25 Q Now, what is the figure noted under the column

Heritage Reporting Corporation
(202) 628-4888

1 "YTD actual"?

2 A What is the --

3 Q What is the figure noted there, sir?

4 A Oh, that's -- net to net operating profit?

5 Q Yes, sir.

6 A It's a net operating loss of \$21,587.

7 Q Now, in trying to help us since we're not
8 accountants here, what is that figure supposed to represent?

9 A Well, I mean, it's supposed to be a reflection of
10 how that month's -- well, excuse me, this is year to date,
11 which happens to be only one month -- the financial results
12 for that month, and another commonly referred to term would
13 be "net income." And this includes all revenue and expenses
14 for the month, supposed to include all revenue and expenses,
15 both paid and unpaid. If they pertain to that month, then
16 the get accrued and put into payables and put in that month.
17 So it's a matching of revenue and expenses for the month.

18 Q So these would reflect monies that are not only
19 received and paid, but owed and owing, if you will?

20 A That's correct.

21 Q Now, moving up a little bit, there's a term that
22 reads "Oper cash flow." Is that supposed to be operating
23 cash flow?

24 A Yes.

25 Q And what is the figure there?

1 A \$3,318.

2 Q And what does that figure mean?

3 A That's represents -- I'm trying to see how to
4 explain this. That is supposed to represent the difference
5 between revenue and expenses that are normal to the
6 operation. Any other expenses to the operation other than
7 those are put down below, other than normal expenses,
8 because really it's - it's a little misnomer.

9 There are a lot of expenses here, if you'll see
10 the number above, 39,000, you see it?

11 Q Yes, sir.

12 A Okay. There are a lot of expenses, including
13 that, that aren't paid, but they've been accrued to. But
14 had they been paid, the -- another term for this is
15 "broadcast cash flow." It would have been 3,318.

16 Q So this doesn't necessarily represent the cash
17 that's actually available to Hicks at the end of that month?

18 A No, it does not.

19 Q Now, if you would please turn to the second page,
20 focusing on the liabilities and equity side.

21 A Yes.

22 Q Could you explain to me the significance of the
23 two entries? They read "accts pay - Truth," and then the
24 one immediate below, "accts pay - Path."

25 A Yes. This -- you want me to explain what these

1 are or how they get there?

2 Q Well, first of all, what is it that they
3 represent.

4 A Okay.

5 A And secondly, we can talk about the figures.

6 A Okay. They represent in an accounts receivable or
7 payable, and in this case the \$33.00 is a -- Hicks has a
8 payable to Truth Publishing Company for \$33.00.

9 In the accounts payable Pathfinders, there is a
10 bracket around it. That means it's an accounts receivable
11 at that point from Pathfinder of \$32,941. That's what these
12 numbers represent.

13 Q Now, how is it -- you know, what explanation could
14 there possibly be for the first month of operation resulting
15 in Pathfinder owing, if I'm reading this right, Hicks nearly
16 \$33,000?

17 A You recall the -- I can tell you. There's two --
18 it's made up of a lot of things. It's made up of any -- any
19 cash that was put on Pathfinder's books belonging to Hicks,
20 and any difference -- let's take -- let me give you -- the
21 majority of that would have been the escrow deposit that
22 came back. If you recall, I said that was put into
23 Pathfinder's bank account.

24 Q That's the 24,500?

25 A Yes, it was put into Pathfinder's bank account,

1 but it was -- and at that time it became a payable to Hicks
2 Broadcasting. Pathfinder owed that to Hicks Broadcasting.
3 It wasn't their money. They just put it in their account to
4 cover future bills of Hicks Broadcasting. So that's part of
5 it. I don't know what is made up of the rest. It would
6 be -- you will notice there was cash flow, so it would have
7 been -- anytime -- here is one way to think about it.

8 Any references of Hicks become a payable from
9 Pathfinder to Hicks. Any expenses of -- that are paid, cash
10 expenses that are paid by Pathfinder on behalf of Hicks
11 become a receivable. So it's the net of those activities,
12 plus that \$24,000, would make up that number.

13 Q So basically, the -- say the accounting up to this
14 point of the sales of radio time for WRBR would be reflected
15 in this accounts payable?

16 A That's correct.

17 Q Now, going back to the figure on page 3, the net
18 operating profit figure, is this -- I'm going to ask the
19 question and ask you from an accounting standpoint whether
20 it's an appropriate way of looking at this.

21 Given that that figure is a loss, who or what is
22 funding such a loss at this point, or is that an
23 inappropriate way of looking at this?

24 A I think it's an inappropriate way of looking at
25 it.

1 Q Okay. Why don't you explain to us why?

2 A Well, it's an actual reflection of the loss on
3 Hicks's books, but it's not a cash loss at this point. So
4 let's just say for the moment that Pathfinder wasn't paying
5 the bills for Hicks and there was no receivable/payable.
6 Hicks Broadcasting was paying their own bills. They still
7 would not have had a cash loss of \$21,000 necessarily. It
8 could have been -- I don't know what, I cannot tell what
9 the cash loss is. You can never tell as to the income
10 statement because this represents all bills that have been
11 accrued as well as paid.

12 Q Now, what relationship, if any, is there between
13 the net operating profit figure and the operating cash flow
14 figure?

15 A What relation?

16 The net operating profit includes four different,
17 four additional categories of income or expense, but only
18 estimated. It's things that generally pertain to the
19 operations that you put down there, and this is very -- as I
20 mentioned, this is typical -- this is typical and very --
21 the way radios account for a radio station. That operating
22 cash flow or broadcast cash flow, everything before there is
23 like a typical radio station is accounted for.

24 And then you get into the other things. Of
25 course, depreciation is certainly a non-cash item. Trade

1 revenue is a non-cash item. Interest income, I don't even
2 know where it is, but they had a little interest income on
3 something.

4 Q According to that figure, it appears to be a
5 negative. How would that work?

6 A Yeah. I don't know what it is offhand.

7 Q Is that --

8 A We'd have to go back to the general ledger to find
9 the detail.

10 Q Okay.

11 A And I'd have to --

12 Q Perhaps -- let me ask you this question and if you
13 don't know, you can say so, but wouldn't it make sense is
14 that interest income figure reflecting a negative is money
15 that is supposedly owed by Hicks to the shareholders for
16 their loans?

17 A Yeah, that might be it. It's very likely that
18 that is it, and it's -- and we might even find that that
19 interest income term was changed to interest expense
20 somewhere along the way. I haven't looked at these, but it
21 very may well have.

22 Q Well, let's move on and look at the month of May,
23 but this one we're going to be looking at page 6.

24 A Right. Page 6. Okay.

25 Q It's page 6 of the exhibit.

1 A Yeah, I've got it.

2 Q It may not be marked terribly well.

3 A I've got it.

4 Q Now, if you will go to the bottom of page 6, and
5 again look at net operating profit.

6 A That's correct.

7 Q And what figure is reflected there?

8 A For the month?

9 Q Yes.

10 A For the month --

11 Q For year to date, for year-to-date actual first.

12 A okay. Year-to-date actual is a loss of 43,669.

13 Q Now, I take it you were also -- you want us to
14 focus on the month itself, and that's the bottom, bottom
15 left figure?

16 A I'm not --

17 Q No, that's fine. The bottom left figure reflects
18 what?

19 A That reflects the loss for the month of May, 1994.

20 Q And that figure is?

21 A 22,083.

22 Q Now, moving up where it says "operating cash
23 flow," if you look under the figure for the month, what is
24 it that's shown?

25 A It shows a loss of \$11,000.

1 Q And for year to date?

2 A It shows a loss of 7,769.

3 Q Now, given those figures, is it reasonable to

4 infer from this that somebody or something is funding losses

5 for Hicks, or is that still --

6 A Not at this point, no.

7 Q And why would that be?

8 A Because you've got to turn back to the balance

9 sheet.

10 Q All right, why don't we do that. That's on the

11 previous page?

12 A It's on page 5.

13 This statement -- just as a point of information

14 because I really want everybody to understand. This income

15 statement is a matching of revenue and expenses for RBR,

16 paid or unpaid expenses, a matching, trying to do the best

17 job to match those in any given month. It has nothing to do

18 with cash necessarily; just some of those expenses are paid.

19 The balance sheet, to actually look here at the

20 balance sheet, you will notice accounts payable to Truth is

21 1,609, and the receivable from Pathfinder is -- at that time

22 was 16,414. I can't read it very well.

23 Q Right, it looks liked 16,414.

24 A All right.

25 Q And so that represents a figure that at this point

1 in time Pathfinder owes to Hicks?

2 A That's correct.

3 So, in essence, any cash portion of their -- of
4 their loss, they have funded themselves.

5 Q Now, that being the case, that Pathfinder owes
6 money to Hicks, is Pathfinder paying any interest on the
7 money that it owes to Hicks?

8 A No, it was just a -- just thought of as a short-
9 term accounts payable for Pathfinder, accounts receivable
10 for Hicks.

11 Q And moving to the month of June, it's going to be
12 page 8, but look at page 9 for a moment. The accounts
13 payable lines for Pathfinder and Truth, what is the picture
14 now?

15 A It reflects that Hicks Broadcasting owes Truth
16 \$3,380 and they owe Pathfinder 3,752.

17 Q Now, does Hicks have an obligation to pay interest
18 on the money it owes to Pathfinder?

19 A No, it wasn't thought of at that time of anything
20 like that.

21 Q Would you please turn to page 11? What is it that
22 Hicks owes to Truth and Pathfinder now?

23 A Account payable to Truth is 3,590. Accounts
24 payable to Pathfinder is 16,105.

25 Q And at this point there was no arrangement or

1 understanding for payment of interest on any money owed?

2 A No.

3 MR. GUZMAN: Objection. Asked and answered.

4 JUDGE CHACHKIN: No, this is a -- well, it's
5 overruled. You got the answer.

6 I assume this is going to be true for the whole
7 year, there is no interest on any monies owed; is that
8 correct?

9 THE WITNESS: That's correct, Your Honor.

10 BY MR. SHOOK:

11 Q Would that also be true for calendar year 1995?

12 A Yes.

13 Now, there are some points in time that it went
14 back and forth though. I mean, there are some months that
15 the payable to Pathfinder did not exist, and, in fact, there
16 was a receivable from Hicks. I mean, a payable to Hicks.
17 And there was -- and it was just thought of as a receivable
18 or a payable between the companies, and so that's correct.

19 Q Now, are there any other -- are there any other
20 stations that Pathfinder owns where stations are operated
21 jointly and the way the expenses and reviewed works that one
22 station may owe the other station money at the end of the
23 month?

24 A Yes.

25 Q Could you give me an example of, you know, where

1 that might be and how that might work?

2 A That's in Fort Wayne where one of the stations is
3 owned by a separate company, and the other stations are
4 owned by Pathfinder, and that -- that company or that
5 station, and Pathfinder pays their bills. It operates very
6 similar to this. Pays their bills and it becomes a -- when
7 they pay their bill, it becomes a receivable from that
8 company, and the revenues of that company become a payable
9 to the company.

10 Q Now, in the Fort Wayne situation, you mentioned
11 separate company. Is that a company that is distinct from
12 Pathfinder in the sense that Pathfinder has no control or
13 ownership of that other company?

14 A Pathfinder has no ownership.

15 Q What is that other company?

16 A It is another company. I mean, it is another
17 company owned by John Dille. It's 100 -- it's owned by John
18 Dille.

19 No, I'm sorry. It's not 100 percent owned by John
20 Dille. It has other shareholders. He is the majority one.

21 I might also add that occasionally Pathfinder will
22 pay a bill for Truth and it becomes a receivable also, and
23 vice-versa.

24 Q And in the case of both Pathfinder and Truth,
25 though, they are basically controlled by the same people?

1 A Yes.

2 Q And am I understanding correctly that in the Forth
3 Wayne situation the two stations involved are also basically
4 controlled by the same people?

5 A They are now. They didn't used to be. The same
6 arrangement or similar arrangement or the same thing we're
7 doing now was for three years when it was owned by -- 50
8 percent of the company was owned by somebody else totally
9 unrelated.

10 JUDGE CHACHKIN: And 50 percent of the company was
11 owned by Dille?

12 THE WITNESS: Yes.

13 MR. SHOOK: Your Honor, the Bureau offers Exhibit
14 112.

15 JUDGE CHACHKIN: Any objections?

16 MR. WERNER: No, Your Honor.

17 JUDGE CHACHKIN: Exhibit 112 is received.

18 (The document referred to,
19 having been previously marked
20 for identification as MMB
21 Exhibit No. 112, was received
22 into evidence.)

23 BY MR. SHOOK:

24 Q Mr. Watson, I want to direct your attention back
25 to Volume 3. It's Mass Media Bureau Exhibit 85.

1 Is that your signature?

2 A Yes, it is.

3 Q And did you or have you maintained the original in
4 the minute book, the original of the operating agreement?

5 A Yes, it is. I keep all the records for Hicks
6 Broadcasting.

7 Q Now, the minute book that's being referred to, is
8 that the official minute books for Hicks so far as you know?

9 A Yes, it is. I mean, that's where the originals of
10 the minutes would be filed.

11 Q Are you aware of any other minute book?

12 A No.

13 Q Did somebody ask you to set up the minute book for
14 Hicks Broadcasting?

15 A I thought I went over this already, but we keep --
16 we were asked by Dave Hicks to keep the records and do the
17 accounting, and everything else that I thought was
18 encompassed in that accounting agreement. Every little
19 detail wasn't spelled out, but this is part of what I
20 certainly thought, and I think he thought, should be done.

21 I mean, there isn't -- I mean, yes.

22 Q I mean, the reason I ask --

23 A Do you understand?

24 Q -- is that we hadn't specifically talked about the
25 minute book before, so I just wanted to make sure.

1 A Okay. But it's not the -- it's just another
2 business record which our office would keep.

3 MR. SHOOK: Your Honor, the bureau offers Exhibit
4 85.

5 JUDGE CHACHKIN: Any objections?

6 MR. JOHNSON: No, Your Honor.

7 JUDGE CHACHKIN: Eighty-five is received.

8 (The document referred to,
9 having been previously marked
10 for identification as MMB
11 Exhibit No. 85, was received
12 into evidence.)

13 BY MR. SHOOK:

14 Q Mr. Watson, could you please turn to -- sir, could
15 you please turn to Exhibits 69 and 70?

16 A Okay.

17 Q Now, with respect to Exhibit 69, did you have any
18 role in the preparation of this report?

19 A Not me personally, no.

20 Q Did anyone under your authority have a role in the
21 preparation of this report?

22 A Well, let me just explain how it's done, and then
23 I can tell you who is involved?

24 Q Sure.

25 A All right. My assistant would have put together a

1 list of employees that are working at TRC and WLTA by
2 category, puts down their name by category, male/female,
3 tries to identify the various things that are supposed to be
4 identified on this report or this filing.

5 Then gives that to a gentleman by the name of Dave
6 Hayes. Dave Hayes then works with the general manager of
7 each radio station, in this case it would have been Steve
8 Kline, in making sure that that list is accurate; in other
9 words, are there proper names, properly categorized and so
10 on and so forth.

11 That comes back to Dave Hayes who has his
12 assistant prepare this report. It's then -- all that
13 information is gathered and given to Alan Campbell who
14 reviews these reports and then files them on behalf of
15 Pathfinder.

16 Q Are you personally involved in the review of this
17 report at any stage?

18 A No, not really, although I do sign them sometimes.
19 John signed this one. I may have been out of time. A lot
20 of times I do sign these, but I really don't prepare them,
21 nor do I pay much attention to them, to be honest.

22 Q Now, with respect to Exhibit 70, do you know how
23 that report came to be prepared?

24 A I think it's the very same procedure. The very
25 same procedure would have taken place for WRBR and -- now,

1 and I know, you know, there were discussions with Alan on
2 how to file the reports, but the procedure would have ben
3 the same.

4 And, again, in the accounting service agreements,
5 it even mentions -- at least in this instance it mentions
6 filing government reports.

7 JUDGE CHACHKIN: Does it say filing of required
8 government reports relating to accounting records? What
9 does this have to do with accounting records, a government
10 report? What does that have to do with accounting records?

11 THE WITNESS: Well, I didn't know that it -- I
12 didn't know that it said that.

13 JUDGE CHACHKIN: Well, you wrote the agreement.
14 That's what it says.

15 BY MR. SHOOK:

16 Q Mr. Watson, in case you're wondering here --

17 A That isn't what it -- it wasn't meant to.

18 Q Okay. What the judge is referring to if you could
19 pull out Volume 1, Mass Media Bureau Exhibit 1, page 81, and
20 that way you will be able to see what the judge is talking
21 about.

22 A Volume 1, okay. Page 81.

23 (Pause.)

24 THE WITNESS: Well, yes, but, I mean, you got --
25 it was envisioned that this would be part of it.

1 JUDGE CHACHKIN: This says accounting records,
2 sir. "Preparing an annual preliminary report," is that an
3 accounting record?

4 THE WITNESS: Your Honor, the information for this
5 report comes from the accounting records.

6 JUDGE CHACHKIN: What accounting records would
7 this have come from?

8 THE WITNESS: All the payroll records that
9 Pathfinder does the -- does the -- Hicks's employees, Your
10 Honor, payroll is administered by Pathfinder.

11 JUDGE CHACHKIN: Whatever the source is, sir, is
12 this an accounting record, annual employment report? In
13 your judgment, is that an accounting record?

14 THE WITNESS: It's -- yeah, it's a government
15 report that reflects data from accounting.

16 JUDGE CHACHKIN: It says "Government report
17 relating to any accounting records for which we maintain."
18 So you're saying any document which relates in any way to
19 any material that the accounting department keeps is
20 encompassed with this accounting agreement?

21 THE WITNESS: I believe it was suppose to
22 encompass that, yes.

23 JUDGE CHACHKIN: Is there anything that wouldn't
24 be an accomplished under your definition within this
25 accounting agreement?

1 THE WITNESS: Having to do with the business of
2 Hicks Broadcasting?

3 JUDGE CHACHKIN: Yes. What would not be
4 accomplished within -- according to your understanding of
5 this agreement?

6 THE WITNESS: I can't think of anything right now.

7 JUDGE CHACHKIN: Go ahead, counsel.

8 MR. SHOOK: Your Honor, the Bureau offers Exhibits
9 69 and 70.

10 JUDGE CHACHKIN: Any objection?

11 MR. JOHNSON: No, Your Honor.

12 JUDGE CHACHKIN: Exhibit 69 and 70 are received.

13 (The documents referred to,
14 having been previously marked
15 for identification as MMB
16 Exhibit Nos. 69 and 70, were
17 received into evidence.)

18 BY MR. SHOOK:

19 Q Mr. Watson, could you please turn to Exhibit 86?
20 Now, is that your signature, sir?

21 A Yes, it is.

22 Q What is it that you're doing here?

23 A It would appear that I am forwarding the licensing
24 agreements with CSAC, ASCAP and DMI to Dave for signature.

25 Q And what is it -- what is it that's supposed to

1 happen after that?

2 A Then forward the agreements to the appropriate
3 people with my attached letters. I mean, I attached a
4 letter. He had to sign them and send them on to the
5 respective licensing agencies.

6 MR. SHOOK: Your Honor, the Bureau offers Exhibit
7 86.

8 JUDGE CHACHKIN: Any objection.

9 MR. JOHNSON: No, Your Honor.

10 MR. WERNER: None, Your Honor.

11 JUDGE CHACHKIN: Exhibit 86 is received.

12 (The document referred to,
13 having been previously marked
14 for identification as MMB
15 Exhibit No. 86, was received
16 into evidence.)

17 BY MR. SHOOK:

18 Q Mr. Watson, could you please turn to Exhibit 108?
19 It's in the fourth volume.

20 Do you have it, sir?

21 A Yes.

22 Q Who is Anthony Adelman?

23 A He is the controller.

24 Q Is he a subordinate of yours?

25 A Yes.

1 Q Now, what budgets --

2 A I'm sorry. I think I'm on the wrong one. You did
3 say -- yes, I'm on the wrong one. Sorry. 108. Excuse me.

4 JUDGE CHACHKIN: He's a controller for?

5 THE WITNESS: For Pathfinder

6 BY MR. SHOOK:

7 Q What budgets is he referring to?

8 A He's referring to WRBR budget.

9 Q Well, I notice that he uses a plural there and I
10 was wondering if you could tell me what that might be
11 referring to.

12 A Well, budgets, I think he was meaning there is the
13 one budget which is the top budget, and then there is all
14 the detail for each department. So he was referring to them
15 as budgets. There is only one budget, but there was various
16 sections of that budget that could be considered budgets.

17 Q All right. Do you know whether there are copies
18 of such budgets available?

19 A From 1994, I don't know if they are still
20 available, but -- I don't know.

21 Q Okay, going back --

22 A We keep them for a couple of years.

23 Q Well, in other words, what, the file is cleaned
24 out periodically?

25 A Occasionally. I mean, we don't keep budgets

1 forever.

2 Q Well, is there a set period of time for which you
3 do keep them and then you --

4 A I believe that --

5 A -- files?

6 A No, but it seems like Tony keeps them for three
7 years.

8 Q Are you aware of anybody other than Tony who would
9 keep them?

10 A I get a copy of the budgets, and Dave Hicks gets a
11 copy of the budget, and I know I don't -- I know I don't
12 have mine. They've been discarded a long time ago.

13 MR. SHOOK: Your Honor, the reason that we -- I
14 would have included such a budget if I had located it. I
15 just didn't happen to come across it. If it exists, we're
16 more than happy to have the record supplemented with
17 whatever -- whatever exists.

18 BY MR. SHOOK:

19 Q Mr. Watson, what role, if any, did Mr. Adelman
20 have in the preparation of the budgets that are referred to
21 in this letter?

22 A I'll explain the whole budget process, may I do
23 that?

24 JUDGE CHACHKIN: Yes. Go ahead.

25 THE WITNESS: After Dave bought the station, there

1 obviously was no budget, and he asked that a budget be put
2 together. He asked Steve Kline to do it.

3 Now, I go through the process that we go through
4 with Steve Kline. He generally gets with his sales staff or
5 general sales manager or whoever he is working with in
6 sales. They come up with the revenue. They also come up
7 with the expense budget. And then Tony and I have a meeting
8 with them and we set down and take a look/see at the budget
9 to make sure that they have categorized things properly;
10 that maybe we can think of something they have forgotten
11 about. We just kind of facilitate the discussion on the
12 budgets, go down line item by line item. And Tony would
13 have done that.

14 We then put together a good preliminary. That
15 preliminary is then sent to Dave Hicks. Dave Hicks was
16 given an opportunity, and then Steve Kline gets another good
17 preliminary. And at that time they can make any changes
18 they see fit to the budget.

19 It then -- we then learn of those changes, and
20 then we put together what hopefully is the final budget.
21 And with that final budget being approved, it's sent to
22 them.

23 BY MR. SHOOK:

24 Q Would it be your understanding from looking at
25 Mass Media Bureau Exhibit 108.

1 A Excuse me. I have one more thing.

2 JUDGE CHACHKIN: Go ahead.

3 THE WITNESS: I just want to emphasize clearly
4 that Tony's role and my role in those budget meetings are
5 strictly as a facilitator, and taking another second holding
6 up the mirror to them. Any budget decisions that they make
7 whatsoever would be the general manager's or Dave Hicks' in
8 this instance.

9 JUDGE CHACHKIN: Is this the way all budgets are
10 prepared for all the stations?

11 THE WITNESS: Yes.

12 BY MR. SHOOK:

13 Q Do you happen to know from looking at Mass Media
14 Bureau Exhibit 108 whether this was the final budget that
15 was being sent or a preliminary budget?

16 A I'm sure it was the final budget. I'm reasonably
17 sure that it was the final budget, yes.

18 Q According to the process that you described, there
19 would have been a preliminary budget prepared and
20 transmitted, whether handed over face to face or sent by
21 mail at some earlier point?

22 A Oh, yeah.

23 JUDGE CHACHKIN: Do we have copies of any of these
24 budgets, preliminary budgets, for any of the years from
25 Hicks?

1 MR. SHOOK: Your Honor, I haven't come across
2 them. If they exist, I'd be more than happy to have the
3 record supplemented with them.

4 THE WITNESS: Yeah, if they exist, I'd be -- I
5 will certainly -- somebody make a note, please, and I'll
6 look for them.

7 Keep in mind you can go back and see the budget
8 numbers though by looking at the financial statements
9 because the budget numbers are then put into each month's
10 financial statements, just so you -- it's not like you've
11 lost the record of what the budget was. And you've got
12 those from any time you've got a financial statement.

13 BY MR. SHOOK:

14 Q Well, along those lines, let us look also then at
15 Exhibit 112 and we can get clear on what you're referring to
16 here. First, I want you to turn to page 3.

17 A Okay.

18 Q Now, there is a column that reads "YTD budget,"
19 and that column is blank, is it not?

20 A That's correct.

21 Q Would it be an appropriate inference to draw from
22 that that a budget had not yet been prepared?

23 A Yes, that would be a correct inference.

24 Q Now, turning to page 6, which is for the month of
25 May of 1994, there are figures that appear under the column

1 "YTD budget," correct?

2 A Correct.

3 Q So would it be an appropriate inference that at
4 least a budget of some kind had been prepared during the
5 month of May?

6 A There -- there would be some -- I think you could
7 infer that the budget was either completed or very close to
8 completion some time in June, not necessarily May. These
9 statements aren't prepared -- aren't finally prepared until,
10 you know, at the latest it would probably be the 15th of
11 June. So the budget was either very close to being
12 finalized or finalized probably right before these ratios,
13 and these numbers therefore we put in the financial
14 statements.

15 Q Well, considering what you've told us about the
16 preparation of the financial statements, that if I remember
17 from your earlier testimony, there was generally around a
18 two-week period from the end of the month that the budget or
19 that the financial statement --

20 A Well, generally --

21 Q -- were prepared.

22 A Generally, within 15 days they try to -- by the 15
23 of April -- at this point by the 15th of the month was kind
24 of a deadline to get out the financial statement. So I
25 presume May's statement was actually sent to Dave and Steve